UDB

Inspiring Development

Business Health Index (BHI) Report

Quarter 1, 2025

Table of Contents

Figures

Executive Summary:

Business performance in Uganda declined in early 2025, as the Business Health Index (BHI) dropped from 50.10 in the prior quarter to 39.63 in quarter 1, 2025, partly due to rising input costs and a decline in demand. The private sector demonstrated strong resilience, as indicated by the Business Health Outlook Index, which reached 56.24 in quarter 1, 2025, from 54.80 in quarter 4, 2024. Enterprise adaptability became clear through job growth maintenance in various sectors and regions despite declining profitability during the quarter.

Business health declined most sharply in the tourism sector, along with manufacturing and agro-processing, due to rising operational costs, insufficient inputs, and declining market demand. Despite declining profitability, the agricultural sector remained relatively stable, while the education sector continued to grow its workforce, demonstrating business commitment to employee retention during tough times. The business community remains confident about the short-term business outlook, while companies continue their efforts to stabilize operations and safeguard employment opportunities.

Western Uganda achieved the highest business health index score at 46.47, while Northern Uganda scored 40.93, and Eastern and Central regions registered scores of 38.35 and 37.64, respectively. The regional outlook indices exceeded the 50 threshold, with Eastern Uganda scoring the highest at 63.13, which indicates positive business expectations for the next quarter. The employment growth score showed positive results, with scores above 50 in both Western and Eastern Uganda, demonstrating business resilience against structural and cost-related challenges.

The analysis revealed that enterprises receiving funding from UDB demonstrated better resilience compared to those that did not receive funding. Both UDB-funded and non-UDB-funded businesses experienced declines in business health, yet UDB-funded firms maintained a stronger BHI score of 42.24 compared to 37.78 for non-UDB-funded entities. UDB-supported businesses showed stronger optimism through their outlook index, which reached 59.57 when compared to 54.07 among non-UDB-funded enterprises. The difference in performance between these two groups illustrates how development finance supports businesses during economic downturns, protecting employment while facilitating recovery plans.

Notably, the businesses faced multiple challenges in Q1 2025. The investors reported high financing costs as a major challenge at 46%, a slight decline from 48% in Q4 2024. Water costs were cited by 22% of respondents, a slight decrease from the 23% reported in the previous quarter. However, electricity expenses worsened, with 37% of businesses identifying them as a constraint in Q1 2025, up from 33% reported in Q4 2025. Labor costs rose significantly, reported by 28% in Q1 2025 compared to 20% in Q4 2025. Weak domestic demand emerged as the most critical issue, affecting 50% of businesses in Q1 2025, up from 44% in Q4 2024. Other structural challenges eased slightly, as those citing “other constraints” dropped from 68% in Q4 2024 to 62% in Q1 2025, including high tax burden on SMEs, delayed client payments, and unfair competition from informal traders. The ongoing challenges decrease profitability levels while restricting business opportunities for investment and expansion. Nonetheless, numerous enterprises managed to protect their workforce while maintaining hope despite current limitations, which demonstrates Uganda's private sector strength.

Development partners, along with policymakers, need to strengthen this resilience through actions that lower structural barriers while providing affordable access to finance and investing in infrastructure for power and transport systems, as well as stimulating domestic demand. The UDB-funded enterprises demonstrate how specialized long-term funding enables businesses to develop their operations while keeping employees and preparing for recovery. The expansion of targeted support mechanisms will play a crucial role in achieving an inclusive recovery that fosters job creation and ensures the sustainability of Uganda's entire economy.

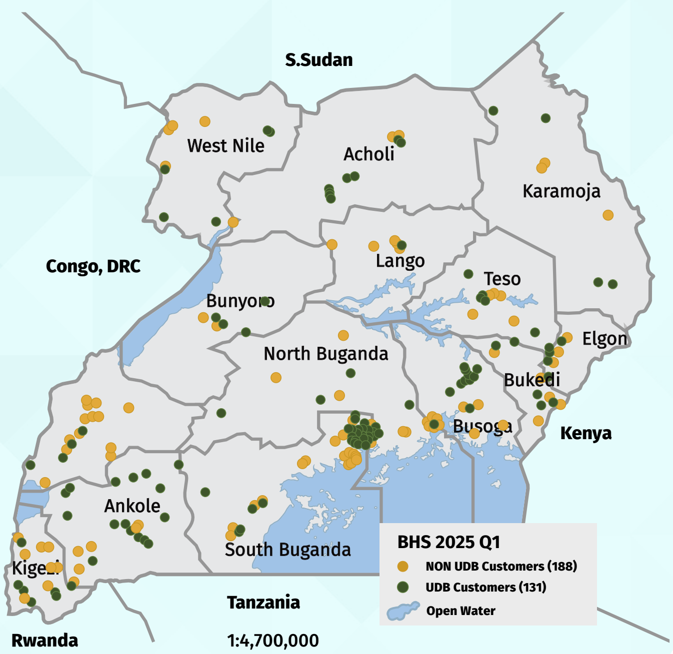
1.0 Introduction

This Business Health Index (BHI) report for quarter 1, 2025, was generated by analyzing the Business Health Survey (BHS) data collected in April 2025, which covers the current business health status and outlook, as well as the challenges affecting business health in Uganda. The BHI is the key measure of business performance, confidence, and resilience in Uganda.

2.0 Data and Methods

The Business Health Survey (BHS) covered 469 enterprises, i.e., 142 UDB customers and 327 non-UDB customers. The study employed a stratified random sampling approach covering small and medium-sized enterprises (SMEs) and large-scale entities in key growth sectors. The survey captured data from primary agriculture, agro-processing, manufacturing, tourism and hospitality, human capital development (including education and health), wholesale trade, and other services such as transportation, the creative industry, and financial services, covering all the regions: central, eastern, northern, and western areas.

UDB Business Health Survey 2025 Q1, 319 Mapped Enterprises



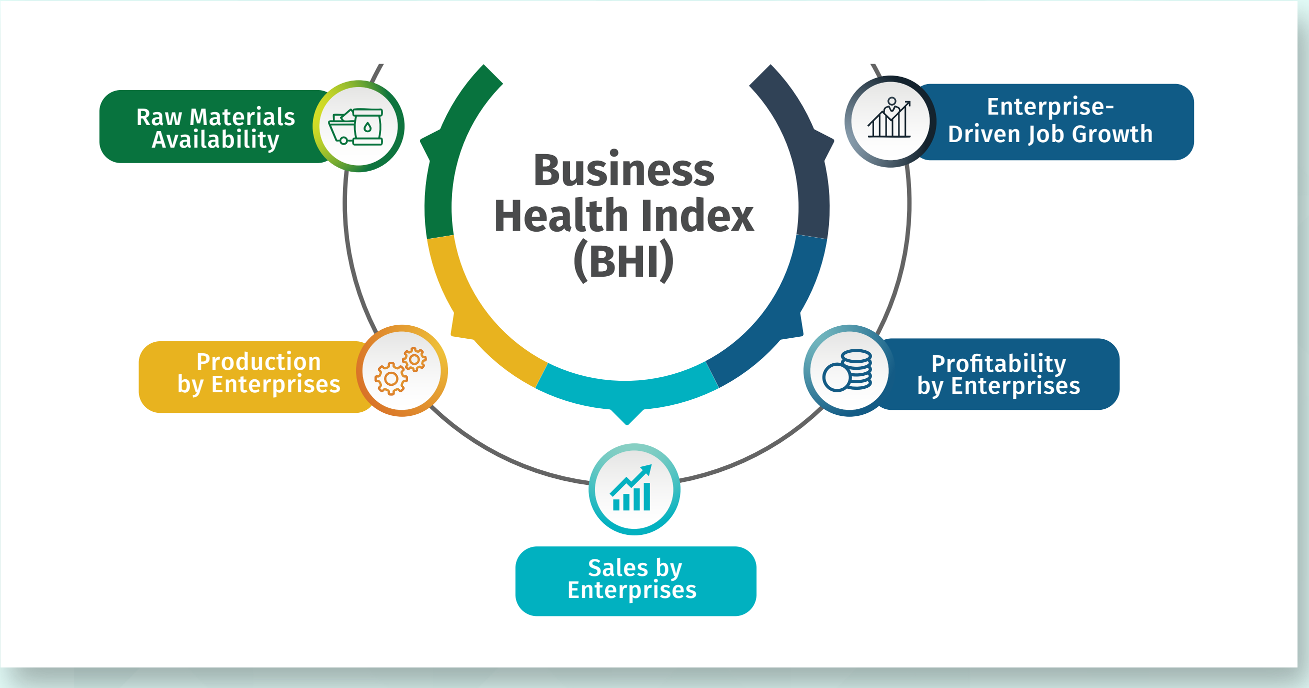
This Business Health Survey (BHS) generated perceptions among business owners and managers regarding the current state of their businesses' performance and outlook. The study on present business health captured the perceptions of business owners and managers on the performance of their enterprises during the just-ended quarter (Q1 2025) compared to the previous quarter (Q4 2024), while the business health outlook captured the expectations on the business performance for the next quarter (Q2 2025) compared to the just-ended quarter (Q1 2025). This process involved assessment of business owners' and managers' perceptions on key business health indicators, including raw material and input availability, production, sales, profitability, and job creation, to generate the Business Health Index (BHI) that is sensitive to direction as opposed to the magnitude of the change in business conditions.

The study also covered the critical challenges that affected businesses during Q1 2025. The survey identified critical business constraints on which respondents confirmed whether they were affected or not, including high costs of financing, high costs of utilities (water and energy), high labor costs, insufficient demand, and high transport expenses. We also asked them to share any other challenges that impacted their business environment during the analyzed quarter.

2.1 Calculation and Interpretation of the Business Health Index (BHI)

The Business Health Index (BHI) is calculated using five core indicators: raw materials availability, production, sales, profitability, and enterprise-driven job growth. These indicators reflect critical aspects of business performance and resilience. Respondents rated their perceptions on a Likert scale: "higher," "same," "lower," or "improve," "same," and "worsen" for each indicator.

Figure 1: The five Business Health Index (BHI) components.



Source: author's construction based on the critical components of the Business Health Conditions

Sub-indices are derived from responses to sub-variables within each component. Responses are weighted as follows: 0 for negative performance or outlook, 0.5 for neutral or unchanged perceptions, and 1 for positive performance or outlook. The sub-indices are averaged to calculate the component indices, which are then averaged to derive the overall BHI.

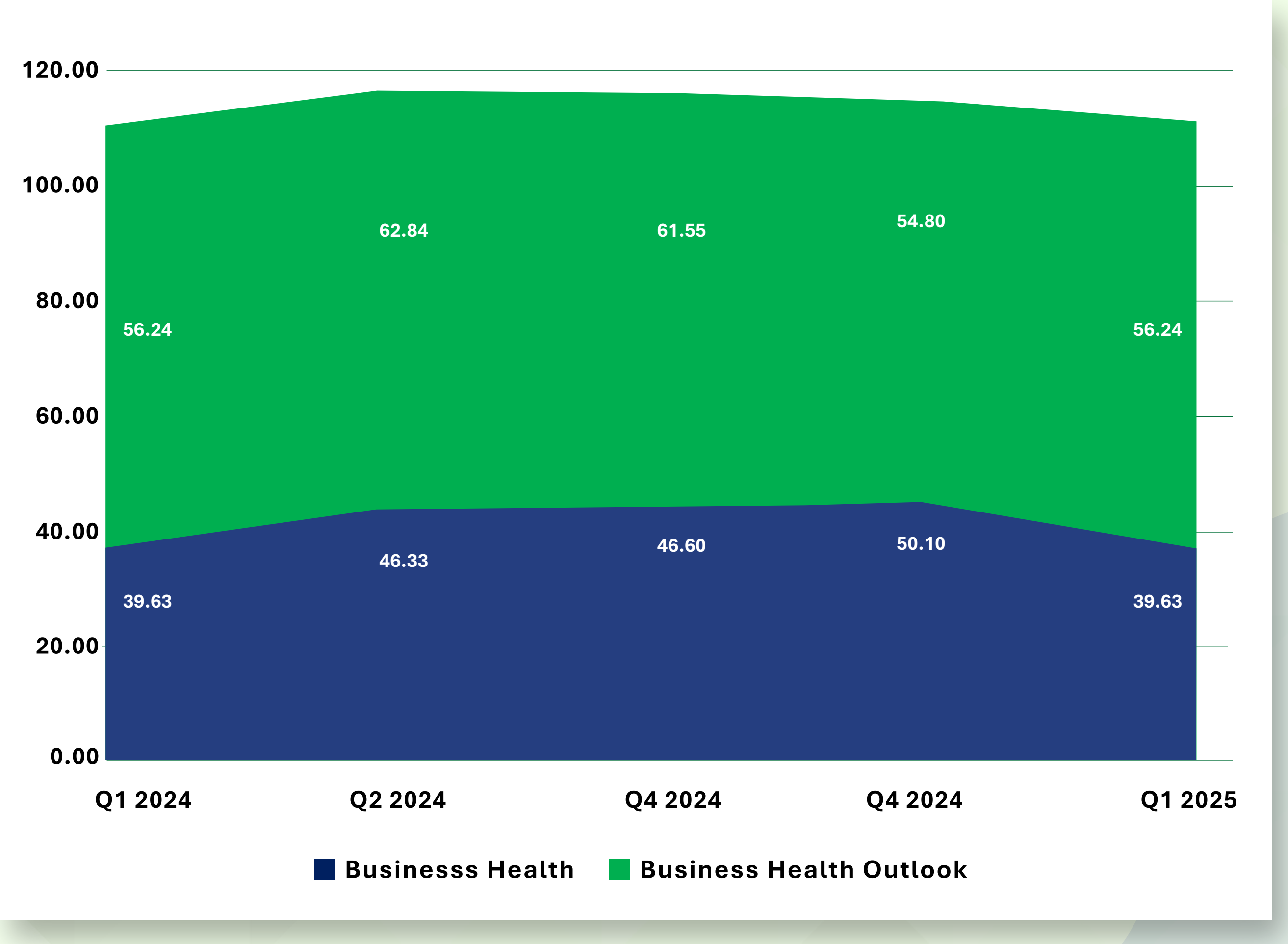
For the current Business Health Index (BHI), a value above 50 signifies an improvement in business health, as perceived by business owners and managers. At the same time, the index below 50 implies a decline in business health as perceived by the respondents. The value of 50 shows no change in business health between the quarters. Looking ahead, a business health index outlook value above 50 indicates optimism or positive expectations among business owners and managers. On the other hand, the outlook index value below 50 signifies the pessimism perceived by respondents for the next quarter. The outlook index value of 50 implies a neutral outlook with no anticipated changes.

3.0 Key Findings

3.1 Overall Business Health Index (BHI) in Uganda

In Q1 2025, business health deteriorated, as indicated by the index below the critical mark of 50. The business health index declined from 50.1 in Q4 2024 to 39.63 in Q1 2025. As a result, the job growth index fell by 7% to 49.04 in Q1 2025 from 53.14 in Q4 2024. Nonetheless, the business health outlook index improved to 56.24 in Q1 2025 from 54.80 in Q4 2024, attributed to the expected improvement in production volumes, sales, and profitability. However, business owners and managers may continue to face the challenge of rising raw material costs, as indicated by the Cost of Raw Materials Outlook Index, which declined to 31.44 in Q1 2015 from 32.62 in Q4 2014. This performance showcases the resilience of businesses in the face of uncertainty.

Figure 1: Overall Business Health and Outlook, Q1 2024- Q1 2025



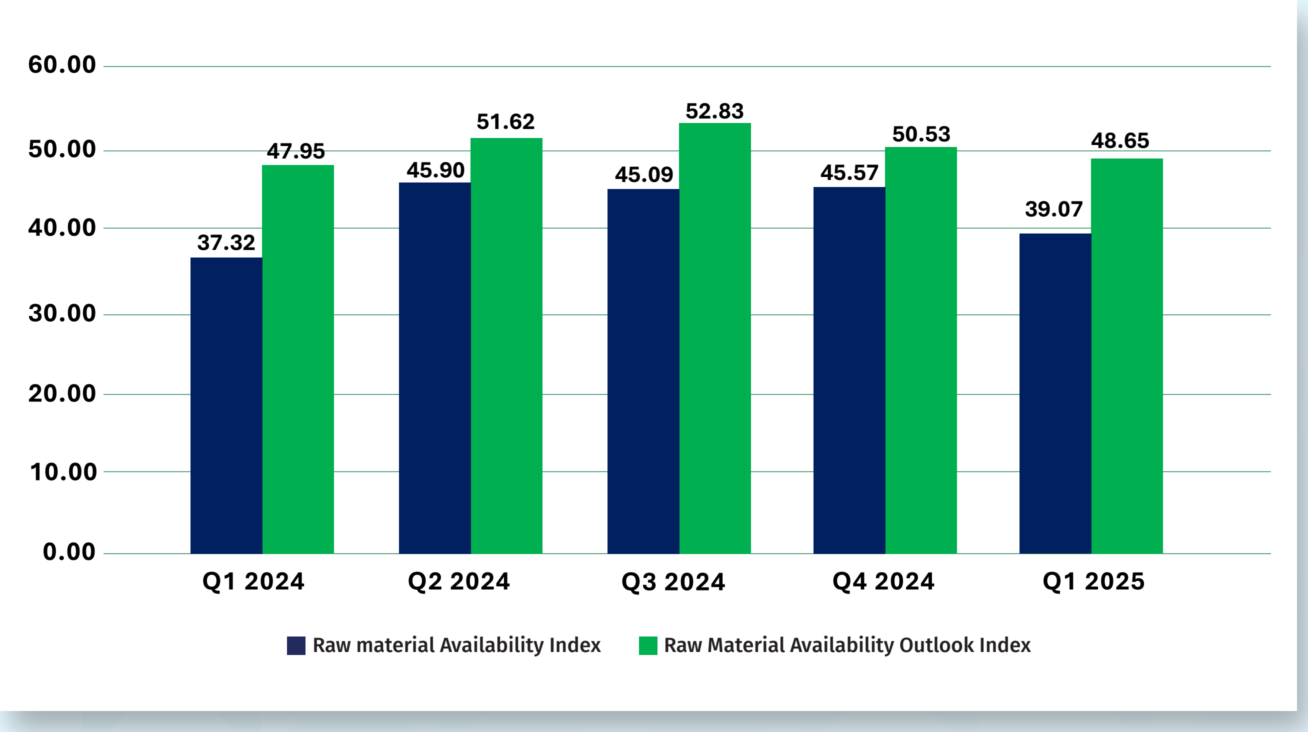
Source: Computation Based on Business Health Survey Data, April 2025

3.2 Key Drivers of Business Health and Outlook in Uganda

3.2.1 Raw Materials

In Q1 2025, the raw materials availability index declined to 39.07 from 45.57 in Q4 2024 due to the perceived decline in the volume and cost of raw materials. The volume of the raw materials index decreased to 47.90 in Q1 2025 from 60.64 in Q4 2024, while the cost of the raw materials index declined slightly from 30.50 in Q4 2024 to 30.24 in Q1 2025. Looking ahead, business owners and managers were pessimistic about raw materials availability, as indicated by the Raw Materials Availability Outlook Index, which declined below the critical mark of 50 to 48.65 in Q1 2025 from 50.53 in Q4 2024. Notably, the outlook for the cost of raw materials index declined from 32.62 in Q4 2024 to 31.44 in Q1 2025.

Figure 2: Raw Materials Availability and Outlook, Q1 2024 to Q1 2025

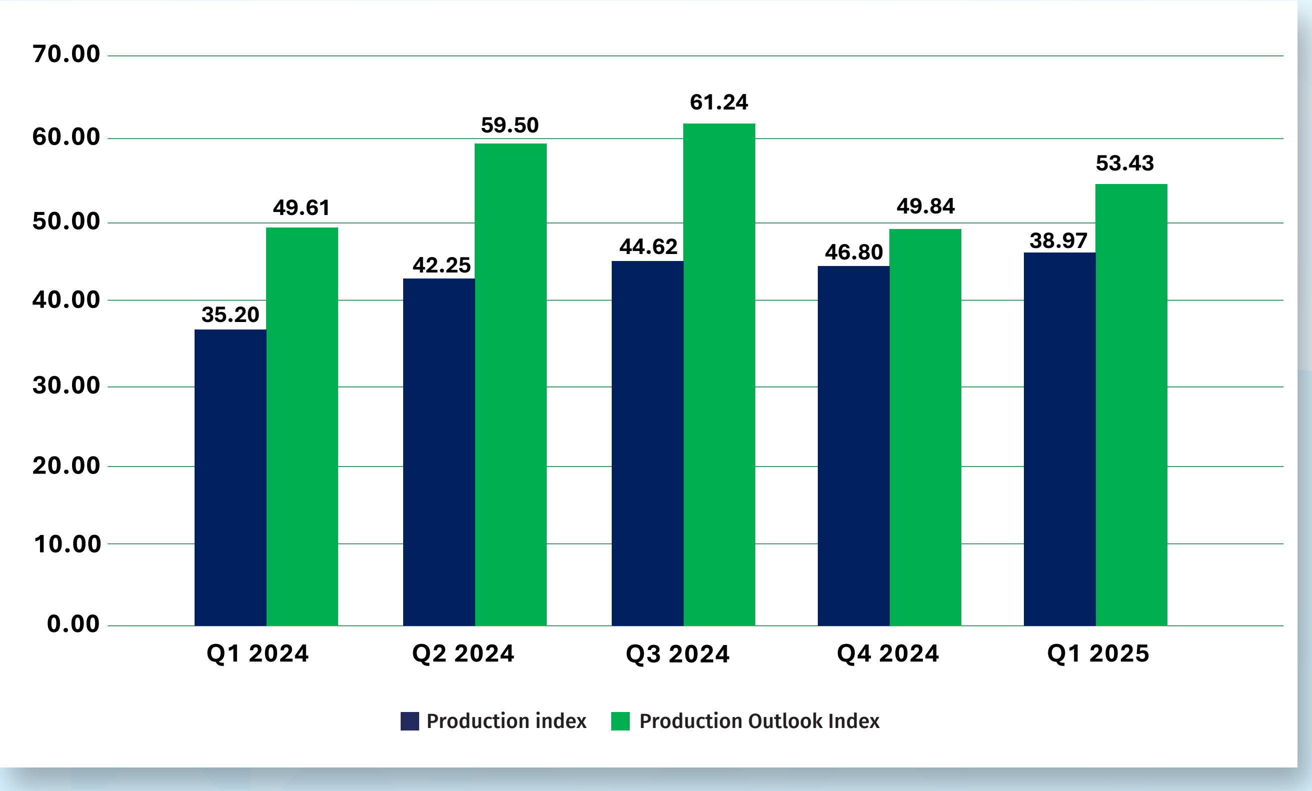


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.2.2 **Enterprise Production**

The production index decreased by 16% to 38.97 for Q1 2025 compared to 46.80 in Q4 2024 because of reduced production volume and capacity utilization, as well as the rise in production costs. The production volume index dropped from 57.97 in Q4 2024 to 48.20 in Q1 2025, while the production cost index dropped from 31.75 to 31.44 during the same period. The capacity utilization index fell from 50.67 in Q4 2024 to 37.25 during Q1 2025. Nonetheless, the production outlook index showed increased optimism among business owners and managers about production in Q2 2025, rising from 49.84 in Q4 2024 to 53.43 in Q1 2025. Enterprises anticipate better production results because they expect to run their operations at higher capacity while producing more products in the next quarter. The capacity utilization outlook index rose from 57.33 in Q4 2024 to 65.69 in Q1 2025, while the production volume outlook index rose from 62.68 to 67.07 during the same period. On a negative note, the cost of production outlook index decreased from 29.50 in Q4 2024 to 27.54 in Q1 2025.

Figure 3: Production and Outlook, Q1 2024 to Q1 2025

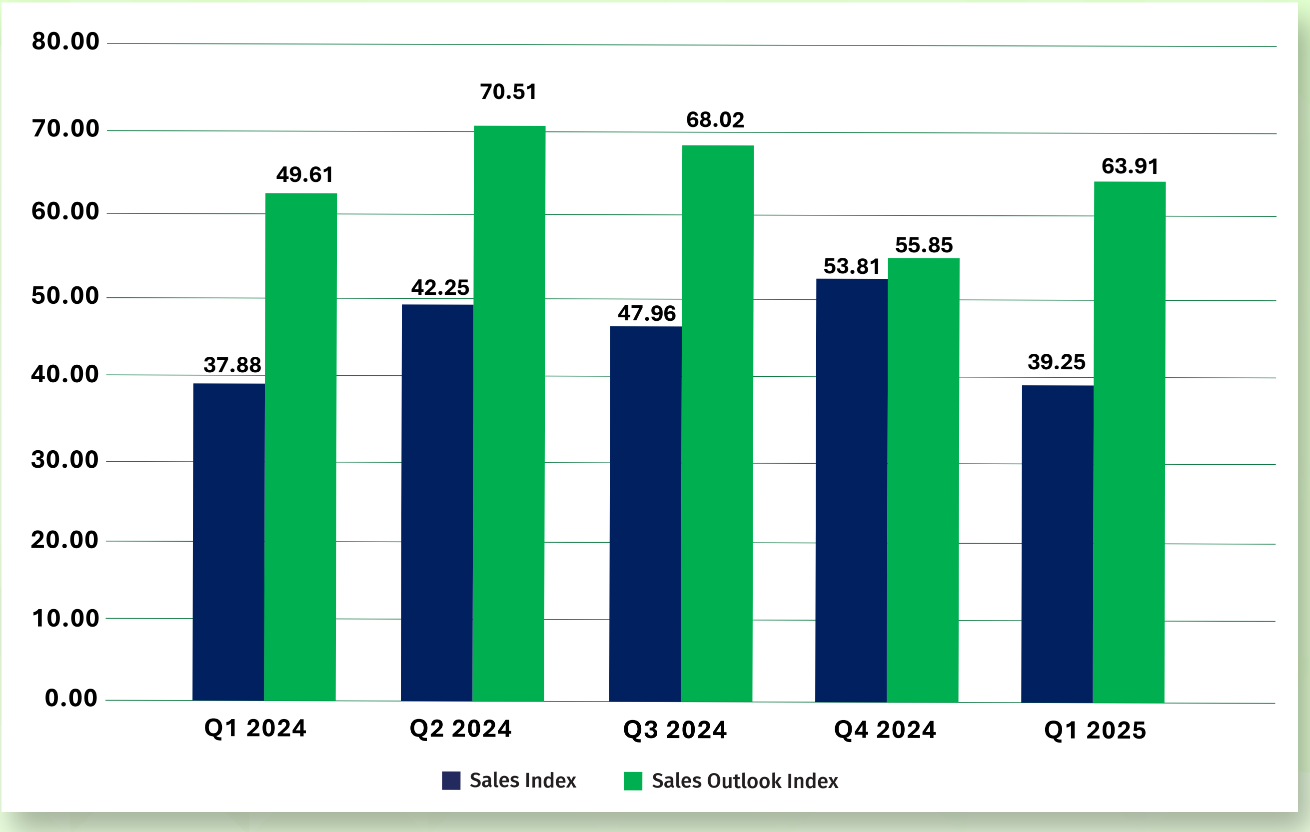


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.2.3 **Enterprise Sales**

The sales index decreased from 55.85 in Q1 2025 to 39.25 in Q4 2024 due to the fall in sales volumes and revenue by enterprises. Notably, the sales volume index declined from 55.96 in Q4 2024 to 31.69 in Q1 2025, while the sales revenue index decreased from 55.30 to 34.90 during the same period. On the other hand, the average selling price index rose to 51.17 in Q1 2025 from 50.17 in Q4 2025. Nonetheless, business owners and managers remained optimistic about future sales, as indicated by the sales outlook index, which increased from 55.85 in Q4 2024 to 63.91 in Q1 2025, driven by the expected rise in sales volumes, revenues, and average selling prices. The sales volume outlook index increased from 54.64 in Q4 2024 to 65.84 in Q1 2025, while the sales revenue outlook index increased from 56.95 to 66.54 during the same period. The average selling price outlook index rose to 59.35 in Q1 2025 from 55.96 in Q4 2024.

Figure 4: Sales and Outlook, Q1 2024 to Q1 2025

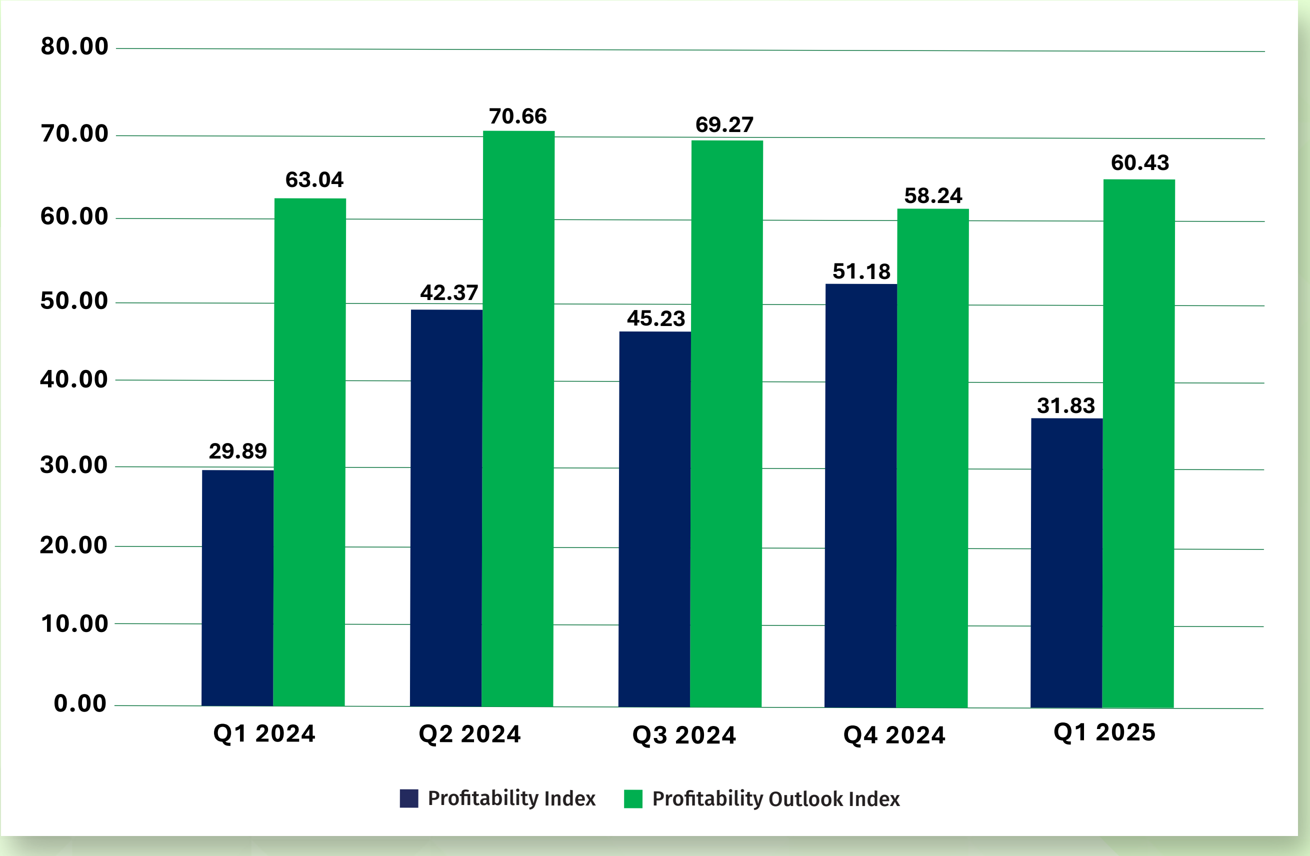


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.2.4 **Enterprise Profitability**

In Q1 2025, the profitability index declined to 31.83 from 51.18 in Q4 2024, primarily due to a perceived increase in production costs and a decrease in sales revenues. Nonetheless, business owners and managers remained optimistic about profitability levels for Q2 2025, as shown by the rise in the profitability outlook index from 58.24 in Q4 2024 to 60.43 in Q1 2025, due to the forecasted increase in production and sales revenue. However, the cost of production is anticipated to continue eroding the profits of enterprises.

Figure 5: Profitability and Outlook, Q1 2024 to Q1 2025

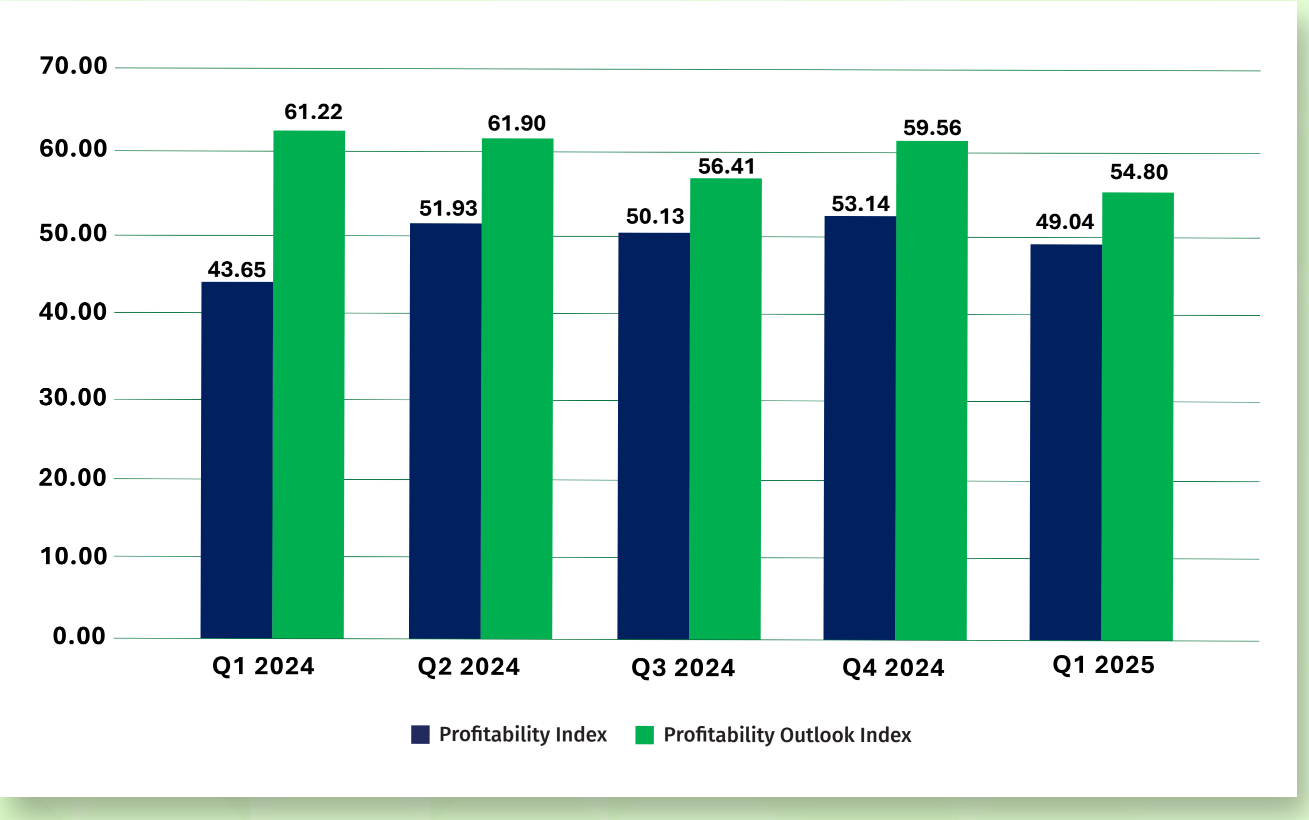


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.2.5 **Enterprise-Driven Job Growth**

In Q1 2025, the job growth index declined to 49.04, below the critical mark of 50, from 53.14 in Q4 2024, due to a perceived decline in profitability among enterprises. Nevertheless, enterprises remained optimistic about job growth, as indicated by the outlook index, which remained above the threshold of 50 despite a decrease from 59.56 in Q4 2024 to 54.80 in Q1 2025 due to anticipated increases in profitability levels.

Figure 6 : Job Growth and Outlook, Q1 2024 to Q1 2025



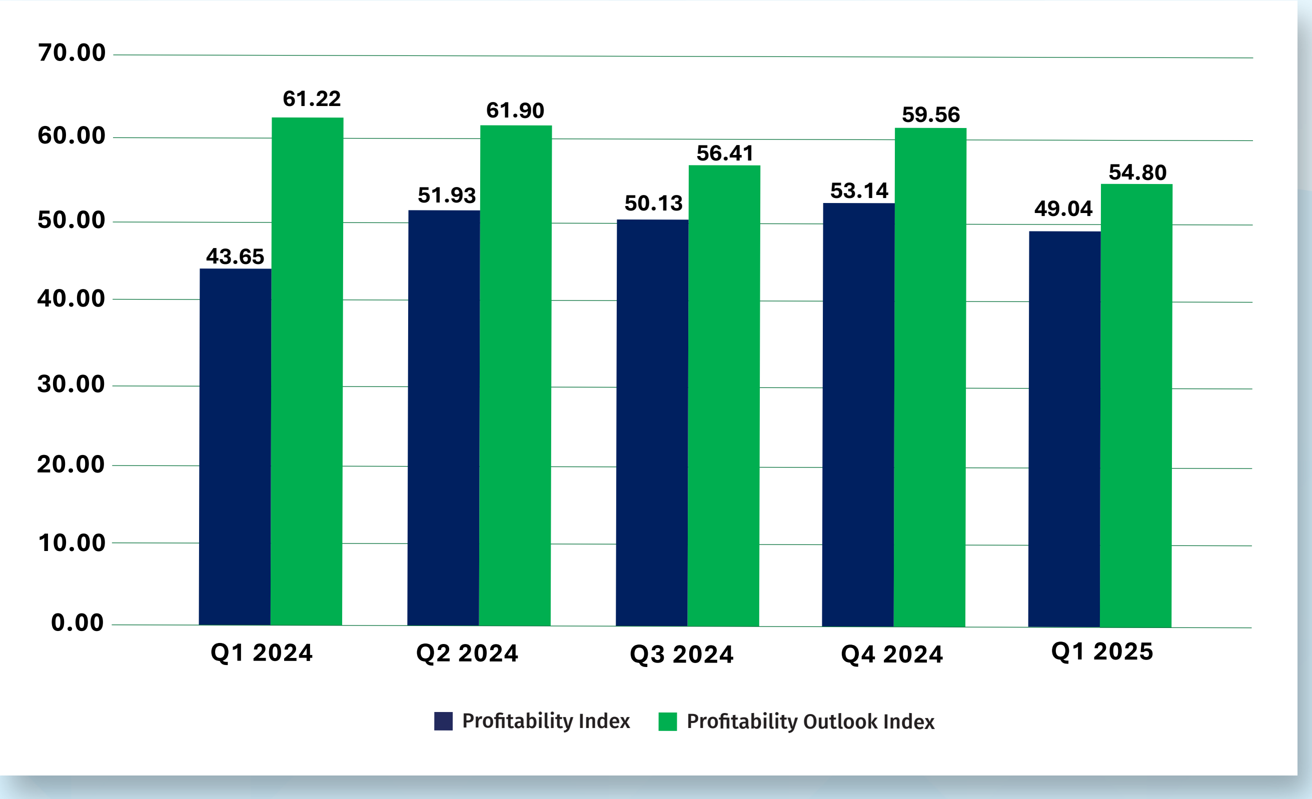
Source: Computation based on Business Health Survey (BHS) data, April 2025

3.3 Business Health Index (BHI) by Sector in Uganda

3.3.1 Agriculture

In Q1 2025, the Business health of agricultural enterprises declined, as shown by a decrease in the agriculture sector business health index to 47.35 in Q1 2025 from 49.32 in Q4 2024, due to the reduction in the availability of agricultural inputs, sales revenue, and profitability levels. Despite the decline in the health of farming businesses, the job growth index rose from 44.78 in Q4 2024 to 53.08 in Q1 2025. This job growth is a result of the optimism for the near future by the business owners and managers, and a lag effect where declines in profitability don't immediately impact employment. If the decrease in profitability of the agricultural sector persists, it may soon affect job creation. On the other hand, business owners and managers forecast improvement in the agriculture sector in Q2 2025, as indicated by the rise in the agricultural business health outlook index from 56.77 in Q4 2024 to 58.59 in Q1 2025, reflecting projected increases in sales and profits. As a result, investors remained optimistic about job growth, as indicated by the job growth outlook index of 57.69 in Q1 2025, which exceeded the threshold of 50, despite a decline from 59.85 in Q4 2024.

Figure 7: Business Health and Outlook for Agriculture Sector, Q1 2024 to Q1 2025

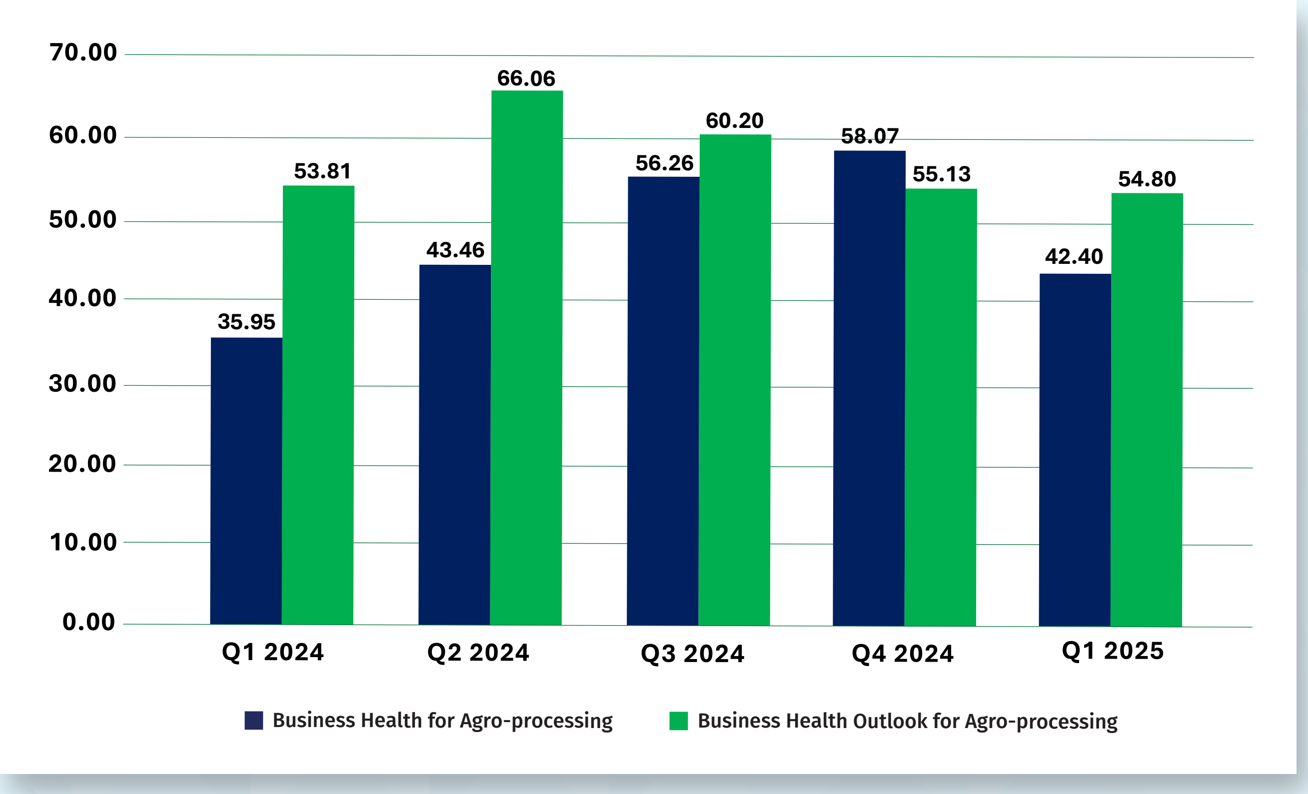


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.3.2 Agro-processing

In Q1 2025, the business health of the agro-processing sector declined to 42.40, below the threshold of 50, from 58.07 in Q4 2024, due to a perceived decline in raw materials availability, production, sales, and profits. Looking ahead, business owners and managers remained optimistic about business performance despite a decrease in the health of the agro-processing business from 55.13 in Q4 2024 to 54.40 in Q1 2025 due to expected increases in production and sales. The job growth outlook index declined from 60.71 in Q4 2024 to 55.77 in Q1 2025 due to the projected decline in the profitability outlook index from 61.11 to 54.00 during the same period.

Figure 8: Business Health and Outlook for Agro-processing Sector, Q1 2024 to Q1 2025

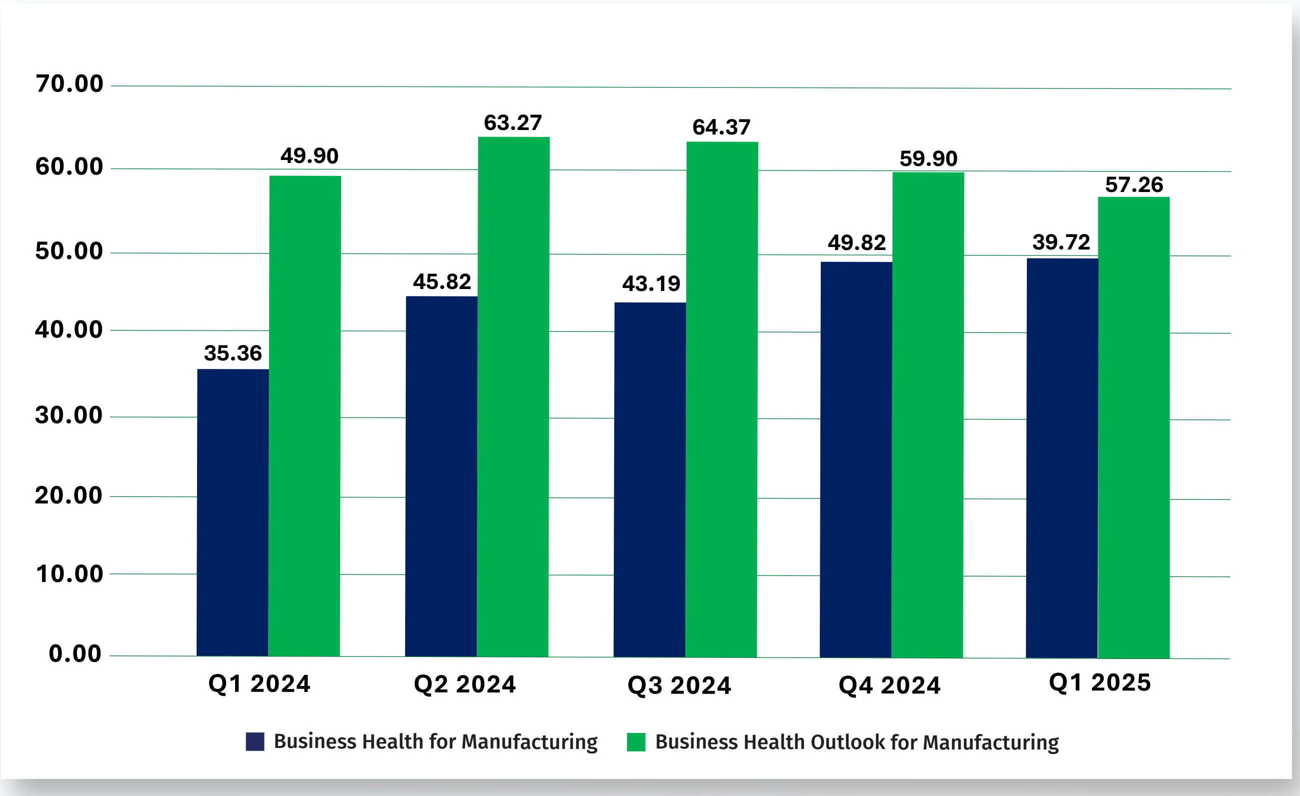


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.3.3 Manufacturing

The manufacturing sector's business health index declined from 49.82 in Q4 2024 to 39.72 in Q1 2025, primarily due to a decrease in production, sales, and profitability. As a result, the job growth index declined from 56.36 to 49.43 during the same period. On the other hand, business players in the manufacturing sector remained optimistic about the business health for Q2 2025, despite a reduction in the business health outlook index to 57.26 in Q1 2025 from 59.90 in Q4 2024.

Figure 9: Business Health and Outlook for Manufacturing Sector, Q1 2024 to Q1 2025

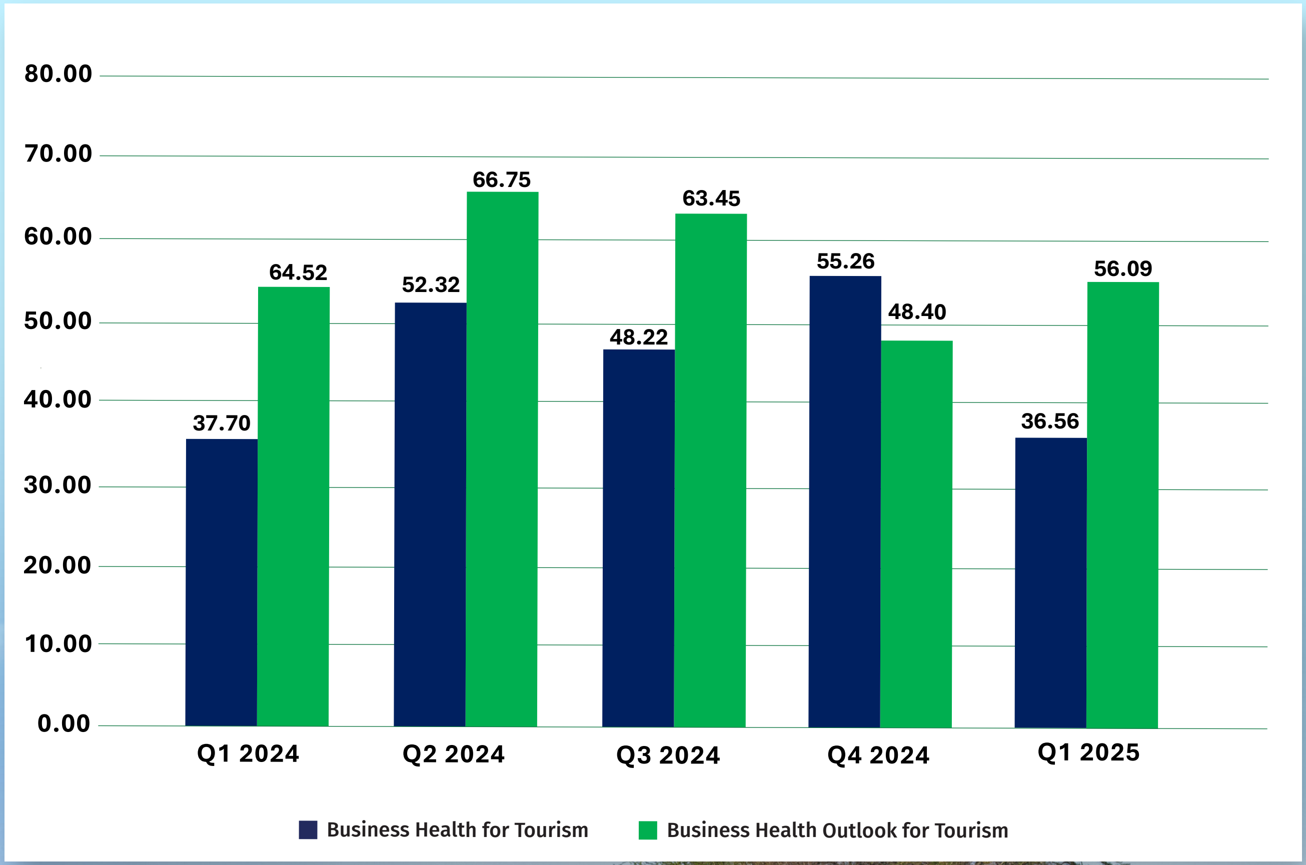


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.3.4 Tourism and Hospitality

The tourism sector's business health index decreased from 55.26 in Q4 2024 to 36.56 in Q1 2025, primarily due to the perceived decline in profitability. As a result, the job growth index decreased from 55.85 to 41.94 during the same period. Nonetheless, the tourism business health outlook index increased from 48.40 in Q4 2024 to 56.09 in Q1 2025, due to a rise in the tourism sector's profitability outlook index from 43.62 to 58.06 during the same period. Notably, the tourism job growth outlook index rose from 52.66 in Q4 2024 to 54.84 in Q1 2025.

Figure 10: Business Health and Outlook for Tourism Sector, Q1 2024 to Q1 2025

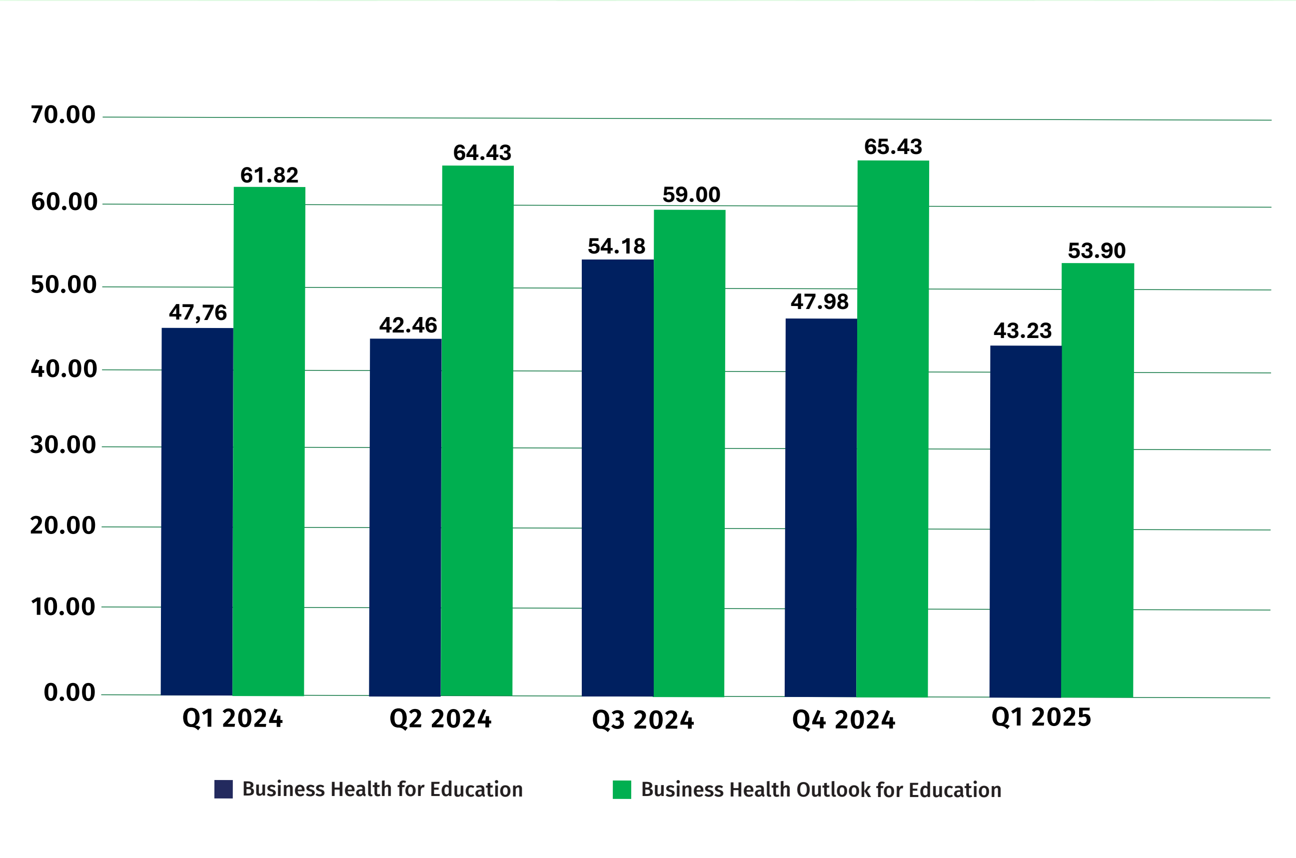


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.3.5 Education

The education sector's business health index declined from 47.98 in Q4 2024 to 43.23 in Q1 2025, primarily due to a decrease in profitability. As a result, the job growth index fell from 51.56 to 51.06 during the same period. On the other hand, business players in the education sector remained optimistic about the business health for Q2 2025, despite a reduction in the business health outlook index to 53.90 in Q1 2025 from 65.43 in Q4 2024. The job growth outlook index declined from 62.50 to 55.32 during the same period.

Figure 11: Business Health and Outlook for Education Sector, Q1 2024 to Q1 2025

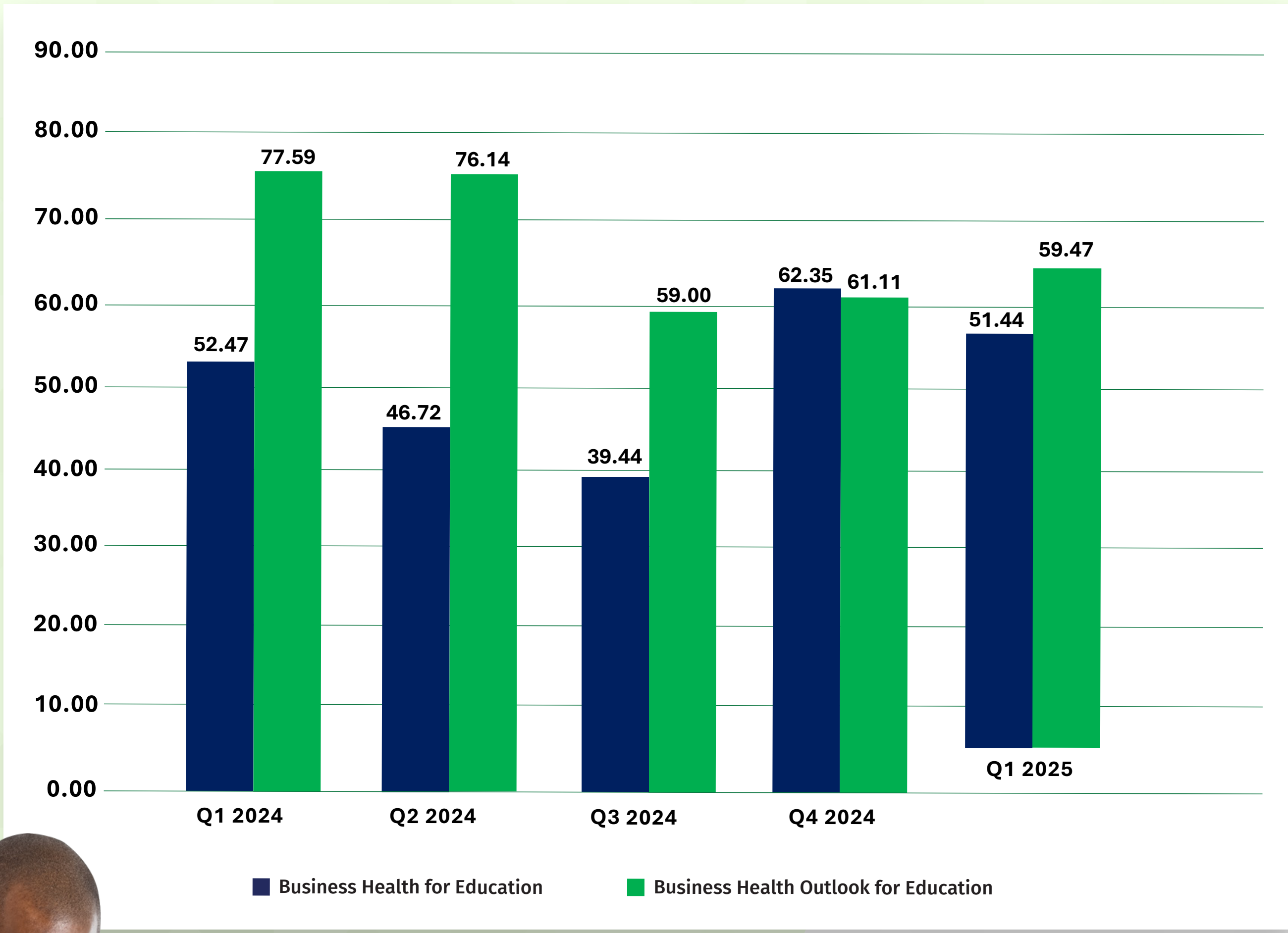


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.3.6 Health Sector

The health sector's business performance index declined from 62.35 in Q4 2024 to 51.44 in Q1 2025, primarily due to a decrease in sales and profitability. As a result, the job growth index fell from 66.67 to 50.00 during the same period. The business owners and managers were optimistic about the business health for Q2 2025, despite a reduction in the Business Health Outlook Index to 61.11 in Q1 2025 from 59.47 in Q4 2024. The job growth outlook index declined from 55.56 to 51.85 during the same period.

Figure 12: Business Health and Outlook for Health Sector, Q1 2024 to Q1 2025

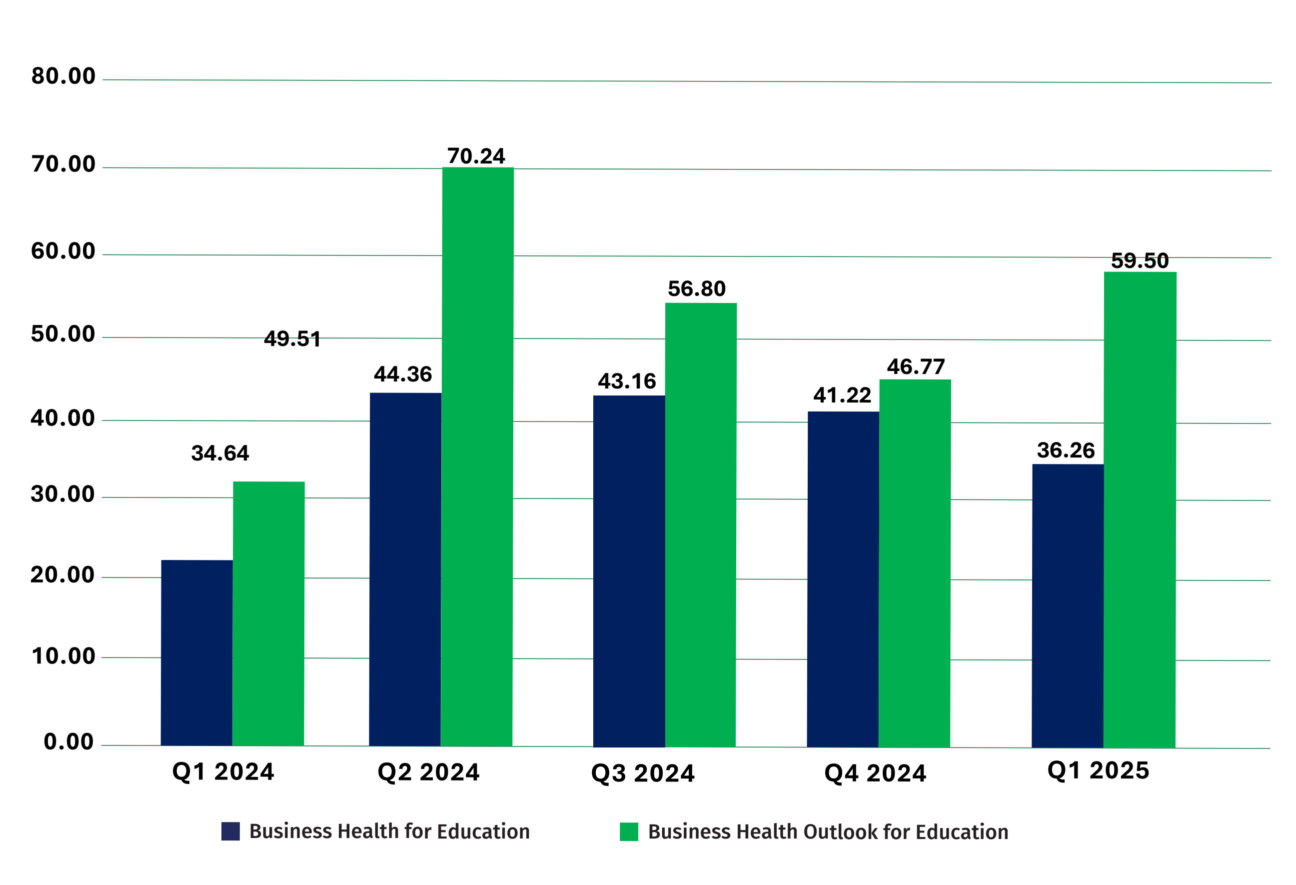


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.3.7 Wholesale Trade

The wholesale trade sector's business health index decreased from 41.22 in Q4 2024 to 36.26 in Q1 2025, primarily due to the perceived decline in sales and profitability. On the other hand, the wholesale trade sector's Business Health Outlook Index increased from 46.77 in Q4 2024 to 59.50 in Q1 2025, due to a rise in the wholesale trade sector's profitability outlook index from 41.94 to 61.84 during the same period.

Figure 13: Business Health and Outlook for Wholesale Sector, Q1 2024 to Q1 2025

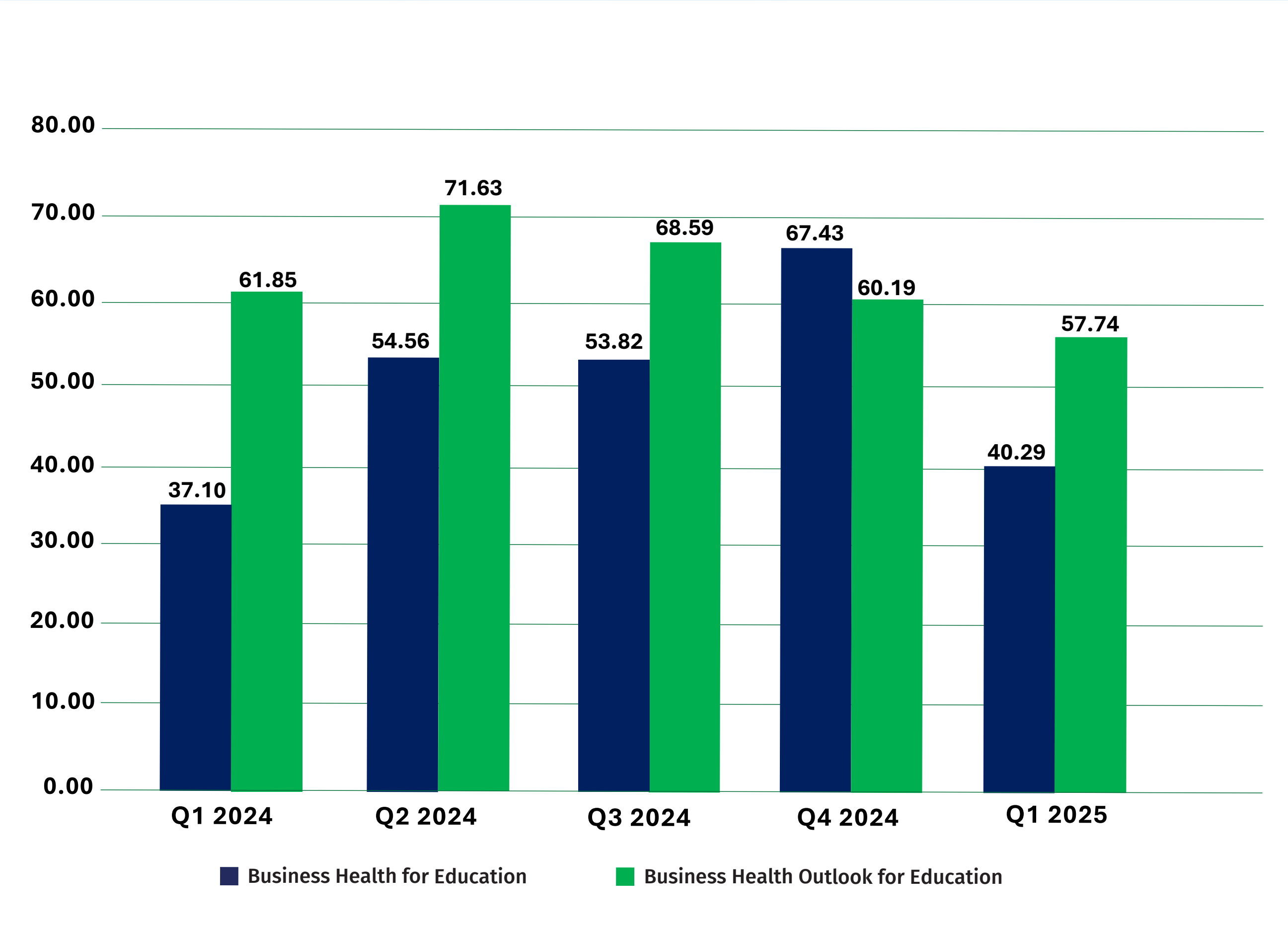


Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.3.8 Other services

The other services business health index declined from 67.43 in Q4 2024 to 40.29 in Q1 2025, primarily due to a decrease in profitability, as indicated by the profitability index, which dropped from 64.71 in Q4 2024 to 22.97 in Q1 2025. As a result, the job growth index fell from 72.22 to 44.59 during the same period. The business owners and managers were optimistic about the business health for Q2 2025, despite a reduction in the Business Health Outlook Index to 60.19 in Q1 2025 from 57.74 in Q4 2024. The job growth outlook index declined from 63.89 to 50.90 during the same period.

Figure 14 : Business Health and Outlook for Other Services, Q1 2024 to Q1 2025



Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

3.3.7 Wholesale Trade

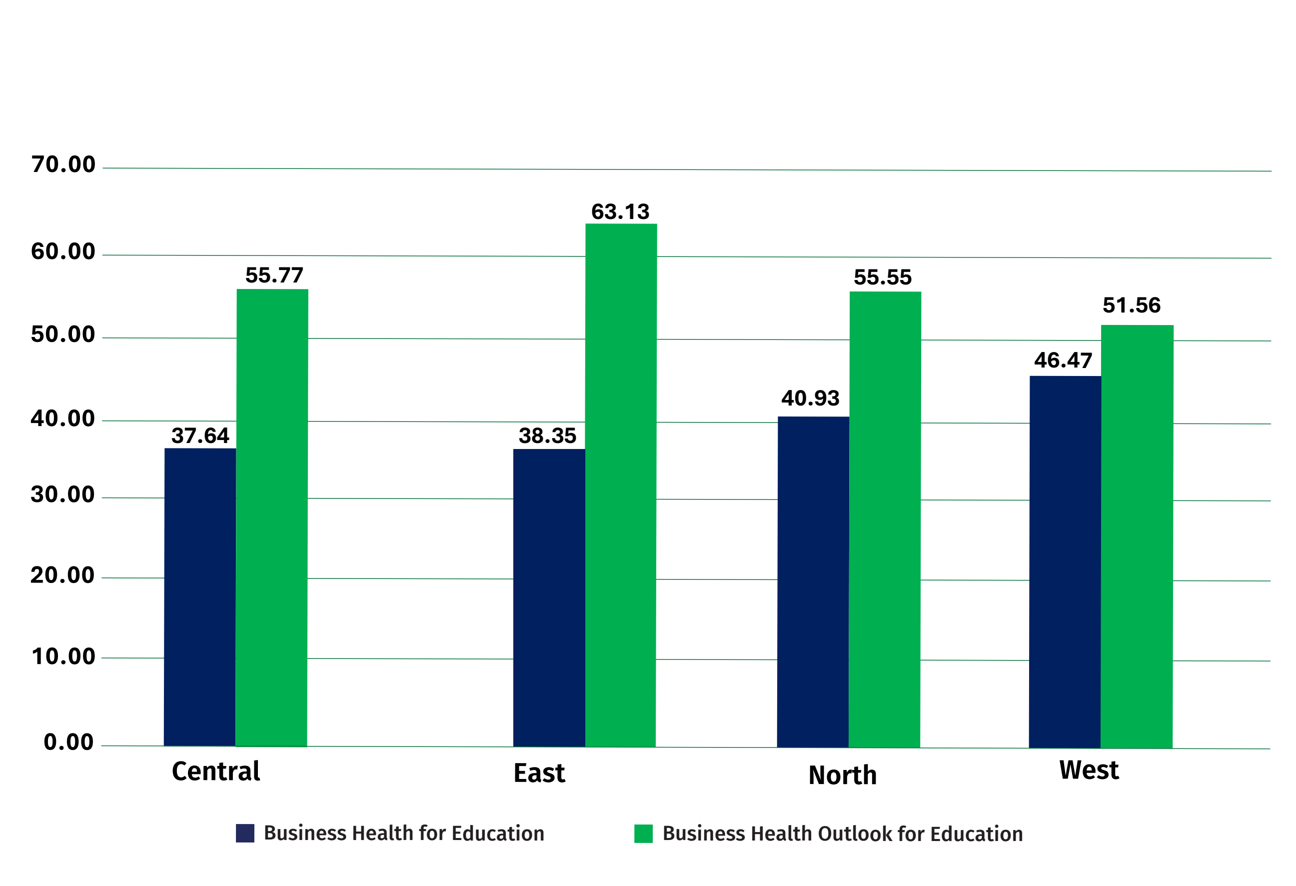
In Q1 2025, business health declined in all regions, as indicated by the index below the 50 threshold. Regionally, the western region had the highest business health index of 46.47, the perceived business performance of Q1 2025 compared to Q4 2024. The western region was followed by the northern region at 40.93, the eastern region at 38.35, and the central region at 37.64. Additionally, the western region had the highest raw materials index at 60.34, due to a perceived improvement in raw materials volumes. Likewise, the northern region experienced an improvement in raw material availability, as indicated by an index of 51.79, which is above the critical mark of 50, primarily due to an increase in the volume of raw materials. However, the cost of raw materials was perceived by the investors to have remained unchanged, as shown by the index of 50.0. On the negative note, business owners and managers perceived a decline in raw materials availability in the central and eastern regions, as indicated by the indices of 32.61 and 32.81, respectively. This was attributed to a perceived decline in the volume, as well as the rise in the cost of raw materials.

Notably, the investors perceived businesses to have experienced a decline in profitability in all regions in Q1 2025 compared to Q4 2024, as shown by the profitability indices below the critical mark of 50, at 36.11 for Western, 31.25 for Northern, 32.00 for Eastern, and 30.33 for Central regions. The perceived decline in profitability is primarily attributed to the decrease in production and sales. Despite profitability challenges, enterprises in the western and eastern areas were perceived to have experienced improvement in job growth, as indicated by job growth indices of 51.11 and 53.25, respectively, due to the anticipated improvement in profitability levels in Q2 2025, suggesting the resilience of enterprises in these regions. However, the central and northern areas were perceived to have experienced a decline in job growth, as indicated by the indices below the critical mark of 50, at 47.56 and 46.43, respectively, suggesting a lower resilience in these regions. Much attention is required to focus on the cost of production to improve the resilience of business establishments across regions in Uganda.

Looking ahead, investors were optimistic about business health for Q2 2025 compared to Q1 2025 as shown by the indices above the threshold of 50, the eastern region having experienced the highest level of optimism as indicated by the business outlook index of 63.13, followed by central at 55.77, northern at 55.55 and lastly western at 51.56. These positive and favourable sentiments among investors about Q2 2025 business health are primarily attributed to the anticipated improvement in profitability, as indicated by the outlook index of 52.78, due to expected increases in production and sales. Job growth is expected to remain the same in Q2 2025 compared to Q1 2025, as indicated by the job growth index of 50. However, the business performance in Q2 2025 may be affected by the increasing cost of production, as shown by the outlook index of 25.86.

Non-UDB-funded enterprises saw an improvement in business health, with the BHI rising from 45.03 in Q3 2024 to 49.23 in Q4 2024. This was attributed to increased production and sales, with total production volume growing from 43.37 in Q3 2024 to 55.00 in Q4 2024 and sales revenue increasing from 44.64 to 56.25 during the same period. Profitability improved slightly, from 46.12 to 49.83, but businesses continued to face raw material constraints, as indicated by minimal changes in raw material availability (43.37 in Q3 to 43.85 in Q4). The sentiment of job growth improved marginally from 50.00 to 52.08, suggesting cautious hiring expectations.

Figure 15: Business Health Index (BHI) by region, Q1 2024 to Q1 2025



Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

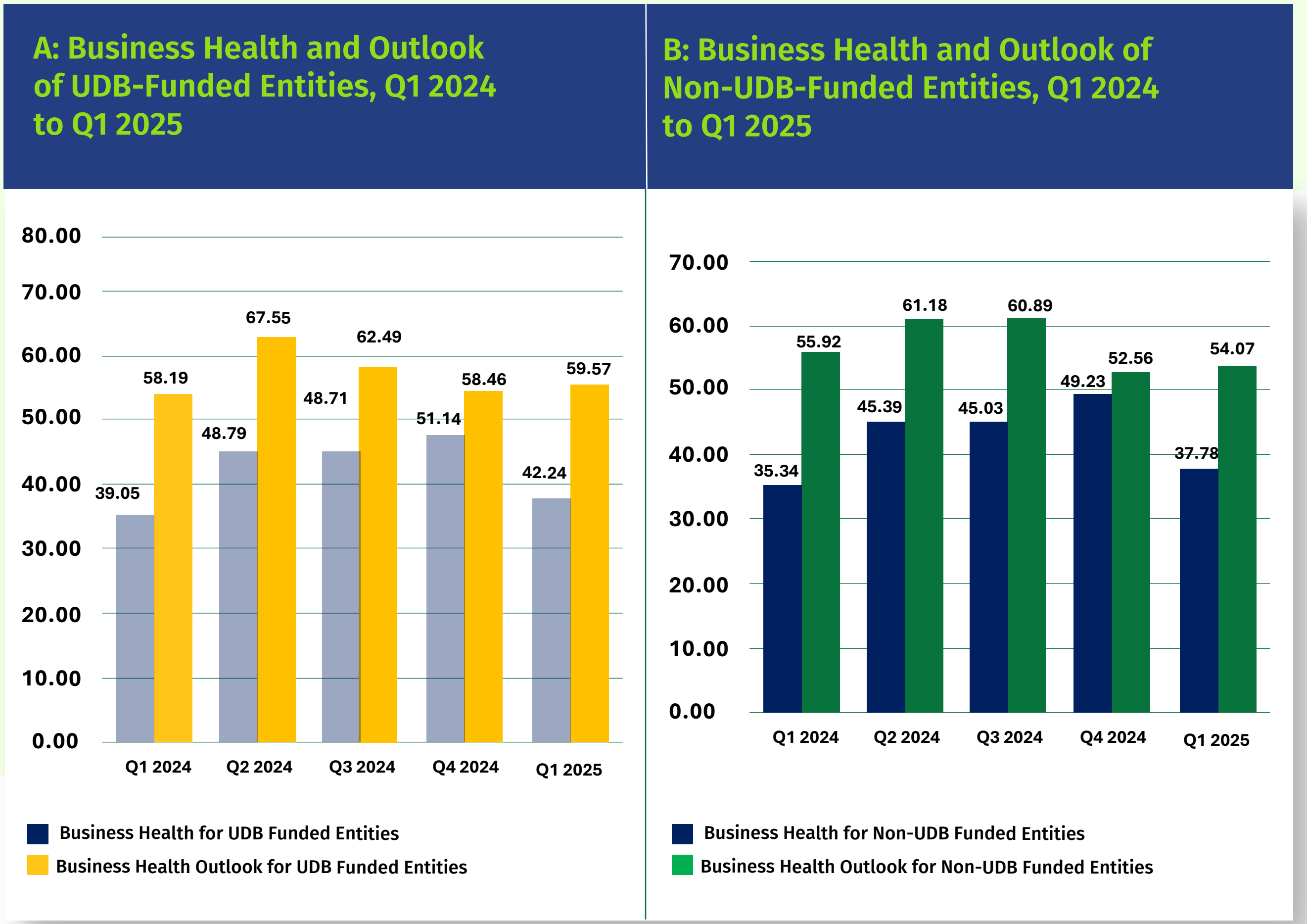
3.5 Comparative Analysis of Business Health and Outlook Between UDB-funded and non-UDB-funded Entities

In Q1 2025, the UDB-funded enterprise remained stronger and better than non-UDB-funded entities despite the decline in the business health index to 42.24 from 51.14 in Q4 2024. This deterioration is attributed to the perceived decline in sales and profitability. The job growth index of UDB-funded entities also declined from 55.32 in Q4 2024 to 48.59 in Q1 2025. The business health of non-UDB-funded entities declined further, as indicated by the index, which decreased from 49.23 in Q4 2024 to 37.78 in Q1 2025, due to the rise in the cost of raw materials, decline in capacity utilization, sales, and profitability.

Looking ahead, UDB-funded entities were more optimistic about business health compared to non-UDB-funded enterprises, with an outlook index of 59.57 in Q1 2025, having increased from 58.46 in Q4 2024, compared to the non-UDB-funded entities' business health index of 54.07 in Q1 2025, having risen from 52.56 in Q4 2024. This optimism, by UDB-funded and non-UDB-funded, is attributed mainly to the anticipated improvement in sales and profitability. However, the cost of production is expected to affect both entities.

3.5 Comparative Analysis of Business Health and Outlook Between UDB-funded and non-UDB-funded Entities

Figure 16: Business Health and Outlook of UDB-Funded and Non-UDB-Funded Entities Q1 2024 to Q1 2025



Source: Computation by the author based on Business Health Survey (BHS) data, April 2025

4.0 Critical Challenges Affecting Business Health in Uganda

The study examined the primary obstacles that impacted business operations during the first quarter of 2025. During the same quarter, business owners and managers provided additional business challenges that affected their operations.

High Cost of Financing

Business entities reported high financing costs as their challenge at 46% during Q1 2025, which represents a slight decline from 48% in Q4 2024. Enterprises from various sectors, including agriculture, manufacturing, healthcare, education, wholesale trade, and service providers, continue to struggle to obtain affordable credit with timely availability, despite fewer entities reporting financing-related business impacts. The combination of elevated interest rates, along with strict collateral requirements and extended loan processing periods, created financial barriers for numerous companies that required prompt working capital and seasonal funding. The organizations reported that limited financial resources prevented them from investing in new inventory, expanding their business operations, and capitalizing on market opportunities. Business continuity and competitiveness require flexible financial solutions that provide timely and sector-specific support.

High Cost of Utilities: Water and Energy

Utility costs had a substantial impact on enterprise operations during the quarter. Operating businesses experienced water cost challenges, which affected 22% of respondents in Q1 2025, while 23% faced these constraints in Q4 2024. The high costs of electricity worsened because 37% of companies identified these problems during the first quarter of 2025, whereas 33% reported them in the last quarter. The lack of reliable infrastructure in certain production areas forces businesses to use expensive backup power systems, which include generators. The utility-related issues have resulted in elevated operational costs and diminished production efficiency.

High Cost of Labour

Labor expenses increased significantly during Q1 2025, as 28% of businesses identified this factor as their primary constraint, compared to 20% in Q4 2024. The rising payroll costs stemmed from the combination of higher wage needs and social security requirements, along with competitive market conditions that forced businesses to maintain their skilled workforce. Businesses implemented staffing modifications by cutting their permanent staff count while depending on temporary workers and contractors for their operations. Several companies have complained about the difficulties they face in finding and retaining skilled workers, particularly in technical and vocational fields.

Insufficient Demand

The business sector faced its most critical issue due to weak domestic demand, which affected half of the businesses during Q1 2025, up from 44% in Q4 2025. Consumer purchasing power was a serious challenge in essential sectors. Firms in the wholesale trade, as well as the hospitality sector, faced declining customer numbers, resulting in reduced revenue streams. Multiple companies claimed to offer promotional deals and flexible payment options, but consumers continued to prioritize prices and remained cautious. The combination of ongoing post-pandemic income recovery issues, rising living expenses, and consumers allocating funds to essential costs such as school fees and rent, prevented most non-essential purchases. The private sector requires more demand stimulation to achieve a lasting recovery.

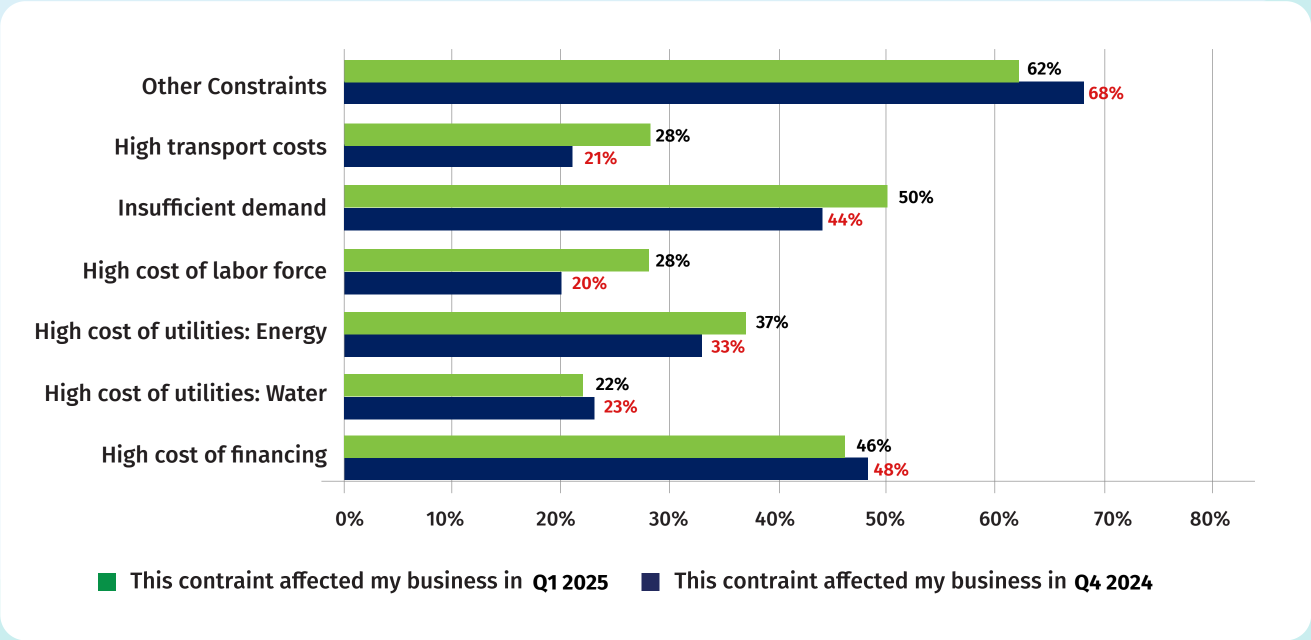
High Transport Costs

Transport expenses worsened during Q1 2025 as 28% of businesses reported high transport costs compared to 21% in the previous quarter. The increasing fuel prices, combined with declining road quality in rural and peri-urban areas, have elevated the cost of transporting goods across the entire country while also increasing safety risks. The logistics sector, along with agro-trade businesses and manufacturing and wholesale distribution companies, experienced regular delays and vehicle maintenance problems, which were caused by inadequate road infrastructure. Elevated transportation costs led to increased product prices, which in turn reduced profit margins, particularly for businesses operating in remote areas or handling perishable goods. The primary element that reduces business expenses and enhances market performance involves investments in road infrastructure, as well as logistics systems.

Other Constraints

The ongoing structural and operational obstacles experienced a minor reduction. The percentage of businesses that reported "other constraints" declined from 68% in Q4 2024 to 62% in Q1 2025. Business operators explained that the total tax load, particularly on SMEs and businesses in a recovery period, hampers their ability to make profits and expand their operations. The payment delays and staggered payment schedules from clients caused financial difficulties for businesses operating in the education, hospitality, and health services sectors. Business owners expressed concerns about informal operators and illegal imports which negatively impact legitimate companies. The slight drop in firms facing these constraints is a positive sign, but structural obstacles still hinder private sector strength and future investment strategies. The resolution of these matters remains crucial for achieving sustainable economic growth in Uganda.

Figure 17: Business Constraints Impacting Enterprises in Uganda, Q4 2024-Q1 2025



Source: Authors' construction based on Business Health Survey (BHS) data, April 2025

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This report draws information from reliable sources such as the BOU, UBOS, MOFPED, IMF, World Bank, EIU, Fitch Solutions etc. Please note that it is for informational purposes only, and feedback and comments can be sent to:

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